Saskatchewan
Finance

Annual Report
1998-99

Saskatchewan
Pension
Annuity Fund

100-04498/

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Saskatchewan
Finance

His Honour, The Honourable J. E. N. Wiebe, KStJ
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Sir:

Letter of Transmittal

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ended March 31, 1999.

I have the honour to be, Sir,

Your obedient servant,

Eric Cline
Minister in Charge
Saskatchewan Pension Annuity Fund

Saskatchewan
Public Employees
Benefits Agency

The Honourable Eric Cline
Minister in Charge
Public Employees Pension Plan
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Pension Board of the Public Employees Pension Plan, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ended March 31, 1999.

Respectfully submitted,

Pension Board
Saskatchewan Pension Annuity Fund

Brian Smith
Chairman

INTRODUCTION

The Public Employees (Government Contributory) Annuity Fund was established under provisions of an amendment to the *Superannuation (Supplementary Provisions) Act*, assented to on June 19, 1985. Effective July 1, 1997 the plan is continued as the Saskatchewan Pension Annuity Fund (SPAF) under subsection 5(1) of the *Saskatchewan Pension Annuity Fund Act.*

All or a portion of a member's PEPP account balance can be used to purchase a life annuity from SPAF.

Members with a spouse must purchase a joint life annuity with their spouse. Upon the death of the member and his/her spouse, if the total amount paid in annuity payments is less than the amount used to purchase the annuity, the difference is paid to the estate of the last survivor.

A member's spouse may waive the right to a joint annuity thereby allowing the member to purchase a single life annuity.

Members without a spouse or whose spouse has waived their right to a joint annuity can purchase a single life annuity from SPAF. The member can choose an annuity guaranteed for the lump sum used to buy the annuity, or an annuity guaranteed for fifteen years.

Men or women retiring under the same circumstances receive the same monthly annuity amount as unisex mortality tables are used in the calculation of the annuity.

Annuity rates are declared weekly. They are based on the long term bond yield as measured by the ScotiaMcLeod Debt Market Index.

INVESTMENT OF FUNDS

The Public Employees Pension Plan Board (Pension Board) is responsible for holding in trust and investing the monies in the Fund. The Pension Board has retained Greystone Capital Management Inc. to be its investment manager.

Greystone Capital Management Inc. continues to manage an immunized bond portfolio.

The investment manager makes the day to day decision of whether to buy or sell specific investments in order to achieve the long term investment performance objectives set by the Board. It is these long term investment performance objectives that the Pension Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Annuity Fund's net assets are immune to changes in the level of interest rates;

- to provide sufficient liquidity to ensure payment to retired members when due; and

- to ensure long-run solvency.

To achieve the above objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -.5 to +.5 years of the duration target;

- the portfolio includes sufficient short term investments to meet liquidity needs; and

- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Pension Board has retained Royal Trust as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (ie. dividends, interest) is collected and provides financial statements for all investment transactions.

The Pension Board engages the services of an asset consultant to provide advice on the overall management of the Plan's investments and on the measurement of the Plan's performance. James P. Marshall, Inc. provides this service to the Pension Board.

PENSIONS

The Saskatchewan Pension Annuity Fund paid a total of $5,741,391 in annuities to 1,325 members, or spouses of members, from the Public Employees Pension Plan during the 1998-99 fiscal year.

ADMINISTRATION OF THE PLAN

The Public Employees Benefits Agency, Saskatchewan Finance provides the day-to-day administration of the pension plan.

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund and are charged to the Saskatchewan Pension Annuity Fund.

The Public Employees Benefits Agency is responsible for receiving the members' PEPP equity balance used to purchase their annuity, accounting for all investment transactions and for the calculation and issuance of monthly annuity payments out of SPAF. The Agency is responsible for ensuring that all transactions are in accordance with *The Superannuation (Supplementary Provisions) Act* and its regulations.

In accordance with section 39 of *The Superannuation (Supplementary Provisions) Act*, the plan is administered by a seven member Pension Board representing employees and employers.

The Pension Board extends its appreciation to the staff of the Public Employees Benefits Agency and to those persons within government departments, agencies and crown corporations whose co-operation and assistance during the year contributed to the continued successful operation of the plan.

Chairman
Brian Smith
Public Employees Benefits Agency

Representing Employers
Jim Graham
Saskatchewan Finance

Nancy Croll
Public Service Commission

Ken Christensen
Sask Power

Representing Employees
Ray Bidwell
Communications Energy and Paperworkers Union of Canada (CEP)

Kirby Sanden
International Brotherhood of Electrical Workers (IBEW)

Dan MacKay
Saskatchewan Government Employees' Union (SGEU)

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly
of Saskatchewan

The Public Employees Pension Plan Pension Board consists of seven appointments made by the Lieutenant Governor in Council. The Pension Board is comprised of a Chairman nominated by the Minister, three members representing the employees and three members representing the employers. The Pension Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Pension Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Plan.

The financial statements have been examined by the Provincial Auditor whose report follows.

Brian Smith
Executive Director
Public Employees Benefits Agency

Kent Walde
Director of Pension Programs
Public Employees Benefits Agency

Regina, Saskatchewan
June 4, 1999, except as to
Note 6 which is of July 7, 1999

SASKATCHEWAN PENSION ANNUITY FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1999

AUDITOR'S REPORT

To the Members of the Legislative Assembly
of Saskatchewan

I have audited the statement of financial position of the Saskatchewan Pension Annuity Fund as at March 31, 1999 and the statements of operations and net assets (deficit) and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Wayne Strelioff

Regina, Saskatchewan
June 4, 1999, except as to
Note 6 which is of July 7, 1999

Wayne Strelioff, CA
Provincial Auditor

STATEMENT 1

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31

	1999	1998 (Restated Note 3)
ASSETS		
Investments (Note 4)		
Short term	$ 1,056,494	$ 1,668,303
Bonds and debentures	62,949,752	53,253,354
	64,006,246	54,921,657
Receivables (Note 8)		
Accrued investment income	1,135,033	987,888
Members' accumulated contributions receivable	7,510	235,569
Due from General Revenue Fund (Note 5)	150,047	4,697
	1,292,590	1,228,154
Cash (Note 8)	4,581	153,680
Total Assets	$65,303,417	$56,303,491
LIABILITIES AND NET ASSETS (DEFICIT)		
Liabilities:		
Administration expenses payable (Note 8)	21,079	11,983
Accumulated provision for annuities payable (Note 6)	64,497,608	56,536,000
Total Liabilities	64,518,687	56,547,983
Net Assets (deficit)	784,730	(244,492)
TOTAL LIABILITIES AND NET ASSETS	$65,303,417	$56,303,491

See accompanying notes to the financial statements.

STATEMENT 2

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF OPERATIONS AND NET ASSETS (DEFICIT)

YEAR ENDED MARCH 31

	1999	1998 (Restated Note 3)
REVENUES		
Transfers from Public Employees Pension Plan	$ 9,507,862	$ 6,309,991
Investment income	5,364,023	5,515,305
Total Revenue	14,871,885	11,825,296
EXPENSES		
Change in accumulated provision for annuities payable (Note 6)	7,961,608	5,915,000
Annuities paid	5,741,392	5,138,759
Administration expenses (Note 9)	139,663	113,333
Total Expenses	13,842,663	11,167,092
Net income for the year	1,029,222	658,204
NET ASSETS (DEFICIT), BEGINNING OF YEAR	---	---
RESTATEMENT (NOTE 3)	(244,492)	(902,696)
NET ASSETS (DEFICIT), AFTER RESTATEMENT BEGINNING OF YEAR	(244,492)	(902,696)
NET ASSETS (NET DEFICIT), END OF YEAR (Statement 1)	$ 784,730	$ (244,492)

See accompanying notes to the financial statements.

STATEMENT 3

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31

	1999	1998
Cash flows from operating activities:		
Net income for the year	$ 1,029,222	$ 658,204
Adjustments for:		
Loss (gain) on sale of investments	(576,993)	(910,861)
Amortization of bond premiums and discounts	(973,225)	(1,120,932)
	(1,550,218)	(2,031,793)
Change in non-cash working capital:		
Decrease (increase) in members accumulated contributions receivable	228,059	(223,405)
(Increase) in accrued investment income	(147,145)	(83,528)
Increase (decrease) in administrative expenses payable	9,096	(6,699)
	90,010	(313,632)
Increase in accumulated provision for annuities payable	7,961,608	5,915,000
Cash flows from operating activities	7,530,622	4,227,779
Cash flows from investing activities:		
Purchase of investments	(114,111,538)	(54,067,997)
Proceeds from sale of investments	106,577,166	49,949,840
	(7,534,372)	(4,118,157)
Net (decrease) increase in cash	(3,750)	109,622
CASH, BEGINNING OF YEAR	158,377	48,755
CASH, END OF YEAR	$ 154,627	$ 158,377

See accompanying notes to the financial statements.

SASKATCHEWAN PENSION ANNUITY FUND
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1999

1. Description of Plan

The Public Employees Pension Board (Pension Board) administers the Saskatchewan Pension Annuity Fund (Fund). The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). The Fund operates pursuant to Section 5 of *The Saskatchewan Pension Annuity Fund Act* (Act).

The purpose of the Fund is to provide annuities to members of designated pension plans. Members of a designated plan may upon retirement elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and interest from their designated plan to the Fund at the time of retirement.

2. Significant Accounting Policies

These financial statements are prepared in accordance with generally accepted accounting principles. The following accounting policies are considered significant:

a) **Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting.

b) **Investments**

Investments are recorded at cost. Premiums and discounts on the acquisition of bonds and debentures are amortized to earnings over the term of the security. Gains or losses realized upon the sale of investments are recognized in the period of disposition.

c) **Accumulated Provision for Annuities Payable**

The accumulated provision for annuities payable represents the present value of the annuities underwritten by the Pension Board and is determined pursuant to an annual actuarial valuation.

Any resulting change in the liability pursuant to the valuation is recognized as revenue or expense in the statement of operations and net assets.

d) **Cash and Cash Equivalents**

Cash consists of cash balances with the investment custodian and the amount due from the General Revenue Fund.

3. Accounting Change

During the year, the Fund retroactively changed its accounting policy for recording a receivable from the General Revenue Fund as described in note 7.

Prior to 1999 management recorded the amount by which liabilities exceeded assets of the Fund as accounts receivable from the General Revenue Fund (GRF), notwithstanding whether or not money was needed to meet the Fund's liabilities to the annuitants over the next few years. During 1999, management of the Fund changed its policy retroactively to record accounts receivable from the GRF only if the money was needed to meet the Fund's liabilities to the annuitants. As the Fund's assets exceeded its liabilities, as at March 31, 1999, the Fund has not recorded any receivable from GRF for the year ended March 31, 1999. Under the previous accounting policy, the Fund would have recorded $244,492 as receivable from the GRF notwithstanding the fact that the Fund's assets exceeded its liabilities as at March 31, 1999.

Also, as a result of this change, the Fund's 1998 financial statements have been restated by reducing the decrease in receivable from GRF by $658,204 (1997 – increases by $902,696) and increasing net assets by the same amount. This change has no impact on the net income of the Fund.

4. Investments

The investment objective is to structure the investment portfolio to limit the effect on the Fund due to changes in the level of interest rates, to provide sufficient liquidity for payments to annuitants when due, and to ensure long-term solvency.

The Fund holds investments in long-term bonds with terms matching the remaining life expectancies of annuitants.

The projected cash inflows over the life of the Fund are expected to meet the cash outflows.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities.

The value of the Fund's assets is affected by short-term changes in nominal interest rates and equity markets.

b) Credit Risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligations to the Fund. The Fund limits the credit risk by dealing with issuers that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service and/or the Canadian Bond Rating Service.

Short Term Investments

Short term investments are comprised of T-Bills and notes with effective rates of 4.70% to 4.80% (1998 - 4.50% to 4.90%) and an average remaining term to maturity of 8 (1998 - 32) days. The Fund's investment policy states that investments must meet a minumum investment standard of "R1" as rated by a recognized credit rating service. Other than the Government of Canada, no single issue represents more than 0% of the market value (1998 - 11.87%) of the short term investment portfolio.

Bonds and Debentures

The Fund's investment policy states that government bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds. At March 31, 1998 and 1999, the Fund held none of its portfolio in BBB bonds.

No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 1999 the Fund held 10.63% (1998 - 13.12%). The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

(in thousands of dollars)

	1999						1998		
Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Yield to Maturity at Market	Coupon Rate	Total Market Value	Yield to Maturity at Market	Coupon Rate
Under 5	975	1,527	3,094	5,596	5.52	0.00-11.00	8,201	3.55	0.00-11.00
5 - 10	4,719	3,150	-	7,869	2.45	0.00-9.63	7,050	4.12	0.00-9.63
Over 10	22,774	32,598	4,726	60,098	5.58	0.00-11.25	48,144	5.81	0.00-11.25
Market Value	28,468	37,275	7,820	73,563			63,395		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The Fund's investments are comprised of:

(in thousands of dollars)

	1999		1998	
Bonds and Debentures	Cost	Market Value	Cost	Market Value
Province of Saskatchewan	$ 1,518	$ 1,949	$ 1,518	$ 1,964
Other Provincial	40,494	35,326	38,345	31,481
Corporate	6,054	7,820	6,454	8,319
Canada	29,755	28,468	22,462	21,631
Total bonds and debentures at par value	77,821	73,563	68,779	63,395
Less unamortized discounts	(14,871)		(15,525)	-
Total bonds and debentures amortized cost	62,950	73,563	53,254	63,395
Short term investments	1,056	1,056	1,668	1,668
Total investments	$64,006	$74,619	$54,922	$65,063

Investments are recorded at cost because investments are matched with liabilities to minimize interest rate and reinvestment risk.

5. Due From General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty day borrowing rate and the Fund's bank account balance. The Government's average thirty day borrowing rate for 1998/99 is 5.0%.

6. Accumulated Provision for Annuities Payable

An actuarial valuation of the Fund was performed as at March 31, 1999 by Aon Consulting Inc. The actuarial valuation was based on a number of assumptions about future events such as interest rates and mortality. The interest rate assumptions were based on the annuity conversion rate for 15 years from date of issue, reducing to 6% thereafter. The average conversion rate of annuities presently being paid is 8.53%. For mortality, 80% of the 1983 Group Activity Mortality Table is used. The consulting actuaries estimated the present value for annuities payable, at March 31, 1999 was $64,497,608 (1998 - $56,536,000).

The annuity payable is based on assumptions about future events including: interest and mortality rates. The actual rates may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuity payable. A 1% increase in the interest rate decreases the liability $5.1 million and a 1% decrease in the interest rate increases the liability $6.0 million.

The accumulated provision for annuities payable is long term in nature. The Fund has no intention of settling it in the near term. Therefore, determination of the fair value of the accumulated provision for annuities payable is not practical.

7. Receivables from General Revenue Fund

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities and for 1999 the Fund's assets exceed it liabilities, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

8. Receivables/Cash/Administrative Expenses Payables

Due to the short-term nature of these financial instruments, the fair value of these instruments approximates their carrying value.

9. Administration Expenses

(In thousands of dollars)

	1999		1998	
	Budget	Actual	Budget	Actual
Administration costs – PEBA	$ 70	$ 75	$ 56	$ 60
Custodial fees – Royal Trust	10	11	8	7
Investment management fees – Greystone Capital Management Inc.	55	54	45	46
	$ 135	$ 140	$ 109	$ 113

10. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. These financial statements include transactions with these agencies and the Fund. Related party transactions with the Fund are in the normal course of operation and are recorded at exchange amounts agreed to by the parties to the transactions.

a) **Investment Management Services**

Greystone Capital Management Inc. (GCMI) provides investment management services to the Fund on a fee for service basis. The Fund is not a shareholder in GCMI, however, several other Saskatchewan public sector pension funds and government agencies hold shares in GCMI.

b) **Investment Holdings**

The Fund holds $1,551,769 (1998 - $1,549,515) Province of Saskatchewan Bonds and Debentures. For the year ended March 31, 1999, the investment income of $150,484 (1998 - $151,778) was earned on the Province of Saskatchewan Bonds and Debentures.

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.

11. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.